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Latin America and the Caribbean: Legislative Issues in 2001-2002

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Latin America and the Caribbean: Legislative Issues in 2001-2002

Summary

This report provides an overview of the major legislative issues facing Congress in 2001 and 2002 relating to the Latin American and Caribbean region, and provides reference and linkages to other reports covering the issues in more detail. The report is organized by the regions and subregions of the Western Hemisphere.

At the hemispheric level, the major legislative issues include the implementation of the Declaration and Action Plan of hemispheric leaders at Summit of the Americas III in Quebec City, Canada, on April 20-22, 2001. This includes individual and collective action to achieve the goal of creating a Free Trade Area of the Americas (FTAA) by 2005, to promote democracy throughout the hemisphere, to strengthen multilateral mechanisms for counter-narcotics activity, and to further sustainable development and environmental protection in the region. The hemispheric response to the September 2001 terrorist attacks on the United States is also included.

With neighbor Mexico in North America, the major bilateral issues for the United States are related to trade, drug trafficking, and migration, as new President George W. Bush seeks to advance friendly relations with new President Vicente Fox, the first President of Mexico from an opposition party in over 70 years.

With regard to the Central American and Caribbean region, the major issues are disaster relief and reconstruction in both Central America and the Caribbean, the proposed Central America-U.S. free trade agreement, earthquakes in El Salvador, implementation of the peace accords in Guatemala, the new government in Nicaragua, and dealing with Panama's new control of the Panama Canal. President Bush has announced a "Third Border Initiative" to strengthen the development of the smaller Caribbean countries, and will be seeking ways to advance democracy in Cuba and Haiti.

In the Andean region, the major issues are President Bush's Andean Regional Initiative for Colombia and regional neighbors, the Andean Trade Preference Act (ATPA) under consideration for renewal, dealing with a new government in Peru, and finding ways to engage the "maverick" government in Venezuela.

In the region encompassing Brazil and the Southern Cone countries of South America, the major issues are dealing with trade and economic issues with Brazil, dealing with a serious economic crisis in Argentina, and completing negotiations for a U.S.-Chile Free Trade Agreement with Chile.

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I. Hemispheric Issues

Summit of the Americas III

Summit of the Americas III was held in Quebec City, Canada, from April 20-22, 2001, with 34 democratically elected Presidents and Prime Ministers from the Western Hemisphere in attendance, including George W. Bush from the United States. The hemispheric leaders dealt with three major themes: (1) Strengthening Democracy, where they agreed to a democracy clause that specified that democratic government was an essential condition for participation in the summit process; (2) Creating Prosperity, where they agreed to advance toward the conclusion of the agreement on the Free Trade Area of the Americas (FTAA) by January 2005; and (3) Realizing Human Potential, where they agreed to initiatives to promote education, health, and greater equity for women, youth, and indigenous peoples.

For more information, see CRS Report RL30936, *Summit of the Americas III, Quebec City, Canada, April 20-22, 2001: Background, Objectives, and Results*, by K. Larry Storrs and M. Angeles Villarreal.

Free Trade Area of the Americas (FTAA)

The Free Trade Area of the Americas (FTAA) would promote Western Hemisphere economic integration by creating a comprehensive (presumably WTO-plus) framework for reducing tariff and nontariff barriers to trade and investment. The FTAA held center stage in discussions at the Third Summit of the Americas that convened in Quebec on April 20-22, 2001. Despite protests from various interest groups, all 34 countries, except Venezuela, signed the Declaration of Quebec City. In so doing, they adopted the bracketed or draft text of the FTAA and reaffirmed the collective commitment to complete negotiations of the FTAA by January 2005, with the agreement's entry into force to occur no later than the end of the same year.

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[1] For information on legislative issues in 2000, see CRS Report RS20474, *Latin America: Overview of Legislative Issues for Congress in 2000*, coordinated by Mark P. Sullivan. The current report, organized by regions, is entitled *Latin America and the Caribbean* to include the English-speaking countries in the Caribbean area. The term "Latin America" is a cultural rather than a geographical term, and includes all countries where Latin-based languages are spoken. "Latin America" includes Mexico in North America and most countries in Central America and South America. It also includes Cuba and the Dominican Republic in the Caribbean where Spanish is spoken, Haiti in the Caribbean where French is spoken, and Brazil in South America where Portuguese is spoken.

There are still many areas where negotiations present formidable challenges including market access issues (particularly with agricultural products), investment rules, antidumping provisions, dispute settlement, and the perennial issue of environmental and labor provisions. To the surprise of some, President Bush gave a nod in Quebec toward addressing many of these issues, including labor and environmental provisions.

Still, negotiating parties hold positions that are at odds with each other on many issues, which keeps the debate sufficiently contentious as to challenge progress and to make it difficult to reach agreement. Prospects for completion of the FTAA hinge, to a great extent, on how vigorously Congress embraces the regional trade initiative. Negotiators in Latin America (and the United States) are eager to see what guidance, particularly on the most controversial issues, Congress may offer should it decide to pass Trade Promotion Authority (TPA) legislation. The Latin American countries, in particular, view congressional action on TPA legislation as the most visible indicator of support for, if not indispensable to, completing the FTAA.

In November 2002, Brazil and the United States will become co-chairs of the FTAA Trade Negotiating Committee (TNC), overseeing the final 2 years of hemispheric negotiations. Brazil and the United States are the two largest economies and have significant differences to resolve, which may be complicated by Brazilian presidential and U.S. mid-term elections in October-November 2002. In neither country is there a consensus on the FTAA, and despite some statements by public sector officials in support of the agreement, private sector discussions still reflect an ongoing tension between the two countries. Additional complications to completing an FTAA include challenges to economic and social progress in Latin America, such as the financial crisis in Argentina and deteriorating political conditions in Venezuela and Colombia. Setbacks in these areas raise the potential for eroding the spirit of cooperation that launched the FTAA negotiations in 1998. The new U.S. overture toward a U.S.-Central American free trade agreement may also raise questions in Latin America over the direction U.S. policy may be heading in addressing freer trade in the Western Hemisphere.

For more information, see CRS Report RS20864, *A Free Trade Area of the Americas: Status of Negotiations and Major Policy Issues*, by J. F. Hornbeck; CRS Issue Brief IB95017, *Trade and the Americas*, by Raymond J. Ahearn; and CRS Report RL30935, *Agricultural Trade in the Free Trade Area of the Americas*, by Remy Jurenas.

Democracy in Latin America and the Caribbean

Latin America has made enormous strides in recent years in the development of democracy, with all countries but Cuba led by democratically-elected heads of state. Nonetheless, many government institutions in the region have proven ill-equipped to deal with challenges to their further development, such as strong, often autocratic presidents; violent guerrilla conflicts; militaries still not comfortable with civilian rule; and narcotics trafficking and related crime and corruption. The Organization of American States has also made progress in efforts to promote democracy in the hemisphere by establishing procedures for collective action when democracy is interrupted, beginning with the Santiago Commitment to Democracy in 1991, and culminating most recently with the adoption of the Inter-American Democratic

Charter in Lima, Peru, on September 11, 2001, the same day as the terrorist attacks on the United States.

For more information, see CRS Report 98-684, *Latin America and the Caribbean: Fact Sheet on Leaders and Elections*, by Mark P. Sullivan, as well as references cited above on Summit of the Americas III and cited below on Haiti and Peru.

Hemispheric Response to September 2001 Terrorist Attacks

Latin American nations strongly condemned the September 11, 2001 terrorist attacks on New York and Washington, D.C. and took action through the Organization of American States (OAS) and the Rio Treaty to strengthen hemispheric cooperation against terrorism. The OAS, which happened to be meeting in Peru on September 11, 2001, swiftly condemned the attacks, reiterated the need to strengthen hemispheric cooperation to combat terrorism, and expressed full solidarity with the United States. At a special session on September 19, 2001, OAS members invoked the 1947 Inter-American Treaty of Reciprocal Assistance, also known as the Rio Treaty, which obligates signatories to the treaty to come to one another's defense in case of outside attack. Another resolution approved on September 21, 2001, called on Rio Treaty signatories to "use all legally available measures to pursue, capture, extradite, and punish those individuals" involved in the attacks and to "render additional assistance and support to the United States, as appropriate, to address the September 11 attacks, and also to prevent future terrorist acts." Although Canada and most English-speaking Caribbean nations are not parties to the Rio Treaty, it is expected that they will participate in efforts to coordinate hemispheric action.

In another resolution, the OAS called on the Inter-American Committee on Terrorism (CICTE) to identify urgent actions aimed at strengthening inter-American cooperation in order to combat and eliminate terrorism in the hemisphere. According to Secretary of State Colin Powell, CICTE has been reinvigorated in the aftermath of September 11, cooperating on border security mechanisms, controls to prevent funding of terrorist organizations, and law enforcement and counterterrorism intelligence and information.[2] On January 28-29, CICTE met in Washington, D.C. and approved an action plan for the coming year. The OAS is also working on a draft Inter-American Convention Against Terrorism that is expected to be ready for submission to the upcoming General Assembly session in Barbados in June 2002.

For more information, see CRS Report RS21049, *Latin America: Terrorism Issues and Implications for U.S. Policy*, by Mark P. Sullivan; and "The Americas' Response to Terrorism" on the OAS web site at [http://www.oas.org/OASpage/crisis/crisis_en.htm].

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[2] Colin Powell, "Hemispheric Solidarity in the War on Terrorism," U.S. Department of State, International Information Programs, Washington File, January 11, 2002.

Drug Certification Process and the OAS Multilateral Evaluation Mechanism (MEM)

Since the mid-1980s, Congress has required the President to certify that drug producing and drug-transit countries are cooperating fully with the United States in counter-narcotics efforts in order to avoid a series of sanctions, including suspension of U.S. foreign assistance and financing, and opposition to loans in the multilateral development banks. The sanctions would also apply if Congress, within 30 calendar days, passed a joint resolution of disapproval to overturn the presidential certification, although any resolution would be subject to veto.

Over the years, spokesmen from many countries have complained about the unilateral and non-cooperative nature of the drug certification requirements, and have urged the United States to end the process and to rely upon various multilateral methods of evaluation that have been developed recently. Mexico, often the focus of congressional debate, particularly expressed dissatisfaction with the process, even though it was regularly certified as being a fully cooperative country. Following the July 2000 election of opposition candidate Vicente Fox as President of Mexico, a number of legislative measures were introduced to modify the drug certification requirements, and these initiatives were mentioned when President Bush met with President Fox in Mexico in mid-February 2001, and in the United States in early September 2001.

Acting to soften existing requirements, on April 5, 2001, the Senate Foreign Relations Committee reported out a substitute version of S. 219, which would (1) suspend the existing drug certification procedures for a 3-year trial period, and (2) require the President to identify by October 1 of each year major drug-transit or major illicit drug producing countries and to deny assistance to any country that has failed demonstrably, during the previous 12 months, to make substantial efforts to adhere to its obligations under international counter-narcotics agreements. The measure expresses the sense of Congress that the United States should at the earliest feasible date in 2001 convene a multilateral conference of relevant countries to develop multilateral drug reduction and prevention strategies. It also urges the President to request legislative changes to implement the strategies no later than one year after enactment. On August 1, 2001, the Senate Foreign Relations Committee approved S. 1401, the Foreign Relations Authorizations Act for FY2002-FY2003, with the provisions of S. 219 incorporated as Sections 741-745 in Title VII, Subtitle D, Reform of Certification Procedures Applicable to Certain Drug Producing or Trafficking Countries. The Committee reported out S. 1401(S. Rept. 107-60) on September 4, 2001, and the measure was placed on the Senate Legislative Calendar.

Although congressional action on S. 219 or S. 1401 is still pending, the drug certification requirements were temporarily modified in late 2001 by enactment of the Foreign Operations Appropriations Act for FY2002 (H.R. 2506/P.L. 107-115). This measure waived the drug certification requirements for FY2002 and required the President to designate only countries that had demonstrably failed to meet international counter-narcotics obligations in line with provisions in S. 1401.

One of the multilateral mechanisms most frequently mentioned is the Multilateral Evaluation Mechanism (MEM) developed by the Inter-American Drug Abuse Control Commission (CICAD) of the Organization of American States (OAS). Under the MEM, all hemispheric countries are evaluated on the basis of 61 common criteria. Representatives of each country evaluate all countries except their own. Hemispheric leaders at Summit of the Americas III noted with satisfaction the first set of evaluations and recommendations under the MEM procedures and called for strengthening the MEM process and for strengthening hemispheric counter-narcotics cooperation. In late January 2002, CICAD reported that hemispheric countries had made significant progress in implementing CICAD's initial recommendations.

For more information, see CRS Report RL30892, *Drug Certification Requirements and Proposed Congressional Modifications in 2001*; and CRS Report RL30950, *Drug Certification Procedures: A Comparison of Current Law to S. 219 and S. 1401 as Reported,* by K. Larry Storrs.

Sustainable Development and Environmental Protection

Roughly 50% of the world's tropical forests, 40% of its biological diversity, and extensive freshwater and marine resources are located in the Latin American and Caribbean region. The U.S. Agency for International Development (USAID) has devoted about $65 million per year to environment programs in the region in recent years, supporting sustainable forestry, improved hillside agriculture, conservation of biological diversity, prevention of industrial pollution, and better water management. In Brazil, for example, USAID, working with other bilateral and multilateral donors and non-governmental organizations (NGOs), supports programs to conserve the Brazilian rainforest. The programs' goals are to suppress fires, and to develop and train leaders for sustainable development activities that will reduce the extensive burning/clearing of tropical forests in Brazil's vast Amazon region which allegedly contributes to the loss of biological diversity and increased global warming.

For further information, see CRS Report RL30121, *Brazil under Cardoso: Politics, Economics, and Relations with the United States,* by K. Larry Storrs; CRS Report 97-291, *NAFTA: Related Environmental Issues and Initiatives*, by Mary E. Tiemann; and CRS Electronic Briefing Book on "Global Climate Change" on the CRS web site, [http://www.congress.gov/brbk/html/ebgcc1.shtml] as well as references to Summit of the Americas III above. See also the explanation of USAID's environment programs in Latin America and the Caribbean at USAID's web site [http://www.usaid.gov/environment/links.html#lac_usaid].

II. Mexico

Fox Administration in Mexico

Vicente Fox of the conservative Alliance for Change was inaugurated as President of Mexico on December 1, 2000, for a 6-year term, promising to promote free market policies, to strengthen democracy and the rule of law, to fight corruption and crime, and to end the conflictive situation in the state of Chiapas. Fox's inauguration ended 71 years of presidential control by the long dominant party in Mexico. With no party having a majority in Congress, President Fox has been unable to advance many aspects of his program. Congress passed a modified version of the proposed indigenous rights legislation, prompting the Zapatista rebels in the state of Chiapas to withdraw from dialogue with the government. Congress also passed a patchwork version of the tax and fiscal reforms, significantly reducing the anticipated resources to be devoted to health and education. With legislative elections approaching in 2003 and with each of the major parties selecting party leaders in late February or early March 2002, observers doubt that Fox will be able to obtain approval of major legislation, including a proposed energy reform that would permit greater private participation in the hydrocarbon and electricity sectors. The President's relations with the long dominant Institutional Revolutionary Party (PRI) may be strained by official investigations of the alleged illegal channeling of funds from the state oil monopoly to the PRI in the 2000 election and of other corrupt practices and human rights abuses in the past. As the parties select their leadership, there is a danger of party splits, with unknown consequences, particularly in the PRI where the losing candidate is alleging irregularities in the February 24, 2002 election.

Following economic growth averaging over 5% in 1996-1999 and growth of 7% in 2000, President Fox has had to confront the economic slowdown in the United States, declining oil prices, and the fallout from the September 2001 terrorist attacks in the first year of his presidency. With an economy in which more than 80% of Mexico's exports go to the United States, Mexico's economy contracted 0.8% in 2001 and is projected to grow modestly (1.4%) in 2002, dependent upon recovery in the United States.[3]

President Fox has indicated that Mexico will pursue a more activist and diversified foreign policy, with greater involvement in UN activities, and stronger ties to Latin America and Europe. He has also indicated that it will be more aggressive in defending the interests of Mexicans living in foreign countries, particularly those in the United States, and he established a Special Office for Mexicans Abroad. On various occasions, President Fox has indicated that he expects to have warm and friendly relations with the United States, and he has called for greater cooperation under NAFTA and for a more open border between the countries over time.

Congress has closely followed political and economic developments in Mexico and is interested in President Fox's efforts to advance democracy, promote free market reforms, and resolve the conflictive situation in Chiapas because of the effects of these developments on bilateral relations and because of the threat of possible instability on the southern border.

For more information, see CRS Issue Brief IB10070, *Mexico-U.S. Relations: Issues for the 107th Congress*, by K. Larry Storrs.

[3] "Mexico: Economic Forecast," *Economist Intelligence Unit*, February 12, 2002.

Mexico-U.S. Bilateral Issues

The United States and Mexico have a special relationship under the North American Free Trade Agreement (NAFTA), which removes trade and investment barriers between the countries. The friendly relationship was strengthened in 2001 by President Bush's meetings with President Fox in mid-February in Mexico, in mid-April in Canada, and in early May, early September, and early October in the United States. President Bush will be traveling to Monterrey, Mexico on March 22, 2002, to attend the International Conference on Financing for Development and to meet with President Fox to discuss key areas in the bilateral relationship.

During the official state visit in early September 2001, the two leaders called for full adherence to NAFTA, measures to strengthen the North American Development Bank (NADBank) and the Border Environmental Cooperation Commission (BECC), heightened cooperation on legal issues (including sharing of seized assets and new mechanisms for multilateral cooperation), and agreement as soon as possible on border safety, a temporary worker program, and the status of undocumented Mexicans in the United States. During President Fox's visit to Washington, D.C. and New York City on October 4, 2001, he expressed solidarity with the United States and the willingness to cooperate with the United States as a partner and as a neighbor on security and counter-terrorism issues. In the early part of the year, Congress had been considering a number of immigration initiatives to broaden temporary admission or to permit legalization of status, but since the September 2001 attacks the trend seems to be toward tighter border control. With regard to drug certification issues, the Senate Foreign Relations Committee has reported out S. 1401 that would suspend the drug certification requirements for 3 years, and Congress approved a waiver of the drug certification process for one year in the FY2002 Foreign Operations Appropriations measure (See discussion above on Drug Certification Process).

For more information on congressional action on bilateral issues, including trade, drug trafficking, and migration issues, see CRS Issue Brief IB10070, *Mexico-U.S. Relations: Issues for the 107th Congress*; and CRS Report RL30886, *Mexico's Counter-Narcotics Efforts under Zedillo and Fox, 1994 to 2001*, by K. Larry Storrs; as well as CRS Report RL30852, *Immigration of Agricultural Guest Workers: Policy, Trends and Legislative Issues,* by Ruth Ellen Wasem and Geoffrey K. Collver; the section on Border Security in the CRS Electronic Briefing book on Terrorism, by William Krouse, available online [http://www.congress.gov/brbk/html/ebter124.html] and the section on NAFTA in the CRS Electronic Briefing Book on "Trade," by J.F. Hornbeck, available online [http://www.congress.gov/brbk/html/ebtra42.html].

III. Central America and the Caribbean

Disaster Relief and Reconstruction

Following the destruction caused by Hurricane George in the Caribbean and Hurricane Mitch in Central America in late 1998, the United States responded with $312 million in emergency relief, and an additional $621 million in grant assistance through AID and other agencies, funded through the 1999 Emergency Supplemental

Appropriations Act. Donors and country officials pledged to be better prepared for disasters, and to "build back better" in reconstruction efforts, including work to reduce poor conservation and land use practices that often contributed to the severity of the disaster damage in the countries. Congress was interested in oversight over this major project in Central America and the Caribbean, with expenditure of the designated funding continuing until the end of 2001. As evidence of continuing concern, the Foreign Operations Appropriations Act for FY2002 (H.R. 2506/P.L. 107-115), approved in late 2001, provided in Section 582 that in addition to the $100 million in assistance for El Salvador, not less than $35,000,000 of the funds managed by the United States Agency for International Development should be made available for mitigation of the drought and rural food shortages elsewhere in Central America.

For background, see CRS Report 98-1030, *Central America: Reconstruction after Hurricane Mitch*, coordinated by Lois McHugh. For current status, see USAID's Hurricane Reconstruction Site on the web [http://hurricane.info.usaid.gov/].

Central America-U.S. Free Trade Agreement

On January 16, 2002, President Bush announced that the United States will explore a free trade agreement with the nations of Central America – Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. The five Central American countries met in Managua in September 2001 to study ways to create closer economic relations and advance free trade and have expressed their readiness to negotiate free trade with the United States as a region.

According to the White House, a Central America Free Trade Agreement would promote U.S. exports, support democracy and economic reform in the region, and advance development of the Free Trade Area of the Americas (FTAA). The Administration said it would work in close consultation with Congress in pursuing the regional trade agreement. No time-line was given for negotiating the Central American agreement, but the Administration's goal is to have the FTAA completed by January 2005.

For further information, see "Fact Sheet U.S.-Central America Free Trade Agreement," January 16, 2002, available online at the White House web site [http://www.whitehouse.gov/news/releases/2002/01/20020116-11.html].

Earthquakes in El Salvador

El Salvador experienced several major earthquakes in January and February 2001 that killed over a one thousand people, and displaced nearly two million people. The United States and other countries have responded with emergency and relief assistance. U.S. emergency assistance totaled nearly $10 million by mid-February 2001, with $6.1 million provided in response to the mid-January earthquake, and $3.3 million in response to the mid-February earthquake. When President Bush met with Salvadoran President Francisco Flores in early March 2001, he said that the United States had provided over $16 million in emergency relief assistance, and he pledged to provide $52 million in reconstruction assistance in FY2001, and an equal or greater amount in FY2002. He also notified the Salvadoran President of the U.S. Attorney

General's decision to grant Temporary Protected Status (TPS) to Salvadoran immigrants in the United States for a period of 18 months. The Salvadoran government had expressed concern about the additional strain that returned immigrants would place on already stretched resources. The Foreign Operations Appropriations Act for FY2002 (H.R. 2506/P.L. 107-115), approved in late 2001, provides in Section 582 that not less than $100 million in rehabilitation and reconstruction assistance will be provided to El Salvador.

For background, see CRS Report 98-1030, *Central America: Reconstruction after Hurricane Mitch*, coordinated by Lois McHugh. For current status, see USAID's updates on Earthquake in El Salvador [http://usaid.gov/about/el_salvador/].

Guatemala and the Peace Accords

Guatemala is beginning the sixth year of implementation of the historic peace accords signed in December 1996, which called for programs to transform Guatemala into a more participatory and equitable society. The United States is the single largest bilateral donor in this area, having offered $260 million in support over the four-year period from 1997 to 2000. Additional support was pledged through FY2003, although multilateral institutions are making larger contributions. The Bush Administration allocated $27.6 million in development assistance and $10 million in Economic Support Funds in FY2002 assistance and is requesting $26.7 million in Development Assistance and $7.5 million in Economic Support Funds for FY2003, largely to support the peace process. U.S. assistance helps the Guatemalan government to implement its social reform program, modernize the justice sector, carry out land bank and titling programs, and encourage participation from marginal communities. The Foreign Operations Appropriations Act for FY2002 (H.R. 2506/P.L. 107-115), approved in late 2001, provides in Section 577 for U.S. agencies to collect, expeditiously declassify, and to make public any information on the murders of U.S. citizens in Guatemala since December 1999. The section in the Act on International Military Education and Training (IMET) stipulates that funds for Guatemala may only be provided for expanded IMET, or training for civilians, and only through regular notification procedures to the Committees on Appropriations.

For background, see CRS Report 98-1030, *Central America: Reconstruction after Hurricane Mitch*, coordinated by Lois McHugh. For current status, see USAID's reports on Guatemala [http://www.usaid.gov/countries/gt/index2.html].

Nicaragua

Ongoing congressional concerns regarding Nicaragua include resolution of property claims, U.S. assistance to Nicaragua, and human rights issues. Resolution of property claims by U.S. citizens regarding expropriations carried out by the Sandinista government in the 1980s remains the most contentious area in U.S.-Nicaraguan relations. After a 3-year freeze in property-related lawsuits, new property tribunals began hearing cases in July 2000. According to the State Department's 2002 Human Rights Report, 317 cases had been filed, 184 passed through the mediation process, and 40 cases (22%) were settled as of July 2001. Those cases not mediated move on to arbitration or are returned to district courts for expedited trials.

U.S. technical assistance is aimed at improving the mechanism for settling property disputes. The Bush Administration has requested $35.9 million for Nicaragua in FY2002, including $10.4 million in food aid. U.S. law prohibits aid to countries that have confiscated assets of U.S. citizens, but U.S. administrations have granted annual waivers to allow Nicaragua to receive aid.

The government of Nicaragua "generally respected many of its citizens' human rights,"according to the State Department Human Rights Report, but serious problems remain, such as extrajudicial killings by security forces. A certain amount of impunity persists, although the government has effectively punished some human rights offenders.

In the first session of the 107th Congress, an additional concern was the fairness and outcome of national elections held on November 4, 2001. The top two presidential candidates were former President Daniel Ortega of the Sandinista National Liberation Front (FSLN) and Enrique Bolanos of the incumbent Liberal Constitutional party. Bush Administration officials made it clear they were concerned about an Ortega victory: from 1979 to1990, Ortega headed Sandinista governments that were socialist and pro-Soviet and fought a bloody civil war against U.S.-backed "contras." Bolanos, a businessman whose property was confiscated during the Sandinista era, won the election, which was widely regarded as free and fair, and was inaugurated January 10. Under Nicaraguan law, Ortega retains a seat in the National Assembly as the runner-up presidential candidate. Also in the legislature will be outgoing President Arnoldo Aleman, who negotiated an automatic seat for himself. As perceptions of corruption in the Aleman Administration rose last year, Bolanos, his former Vice President, distanced himself from the President, denouncing the January 2000 agreement between Aleman and Ortega on constitutional changes that have been criticized as helping the latter two maintain a hold on power. Bolanos has pledged to attack corruption.

For further information, see CRS Report RS20983, *Nicaragua: Country Brief*, by Maureen Taft-Morales.

Panama

The 1977 Panama Canal Treaty terminated on December 31, 1999 and the United States turned operation of the Panama Canal over to Panama on that date. All U.S. troops withdrew from Panama and all U.S. military installations reverted to Panamanian control. Under the terms of the 1977 Treaty on the Permanent Neutrality and Operation of the Panama Canal, which has no termination date, Panama now has responsibility for operating and defending the Canal. However, the treaty gives the United States the right to use military force to reopen the Canal or restore its operations.

In 1999, some Members of Congress and politicians in Panama suggested that there was an opportunity for the United States to negotiate the use of facilities in Panama for U.S. antidrug flights, similar to the Forward Operating Locations (FOLs) arrangements being made with Ecuador, Aruba, and Curacao. However, in 2000, Panamanian President Moscoso resisted a request from the United States to allow the U.S. military to establish a military presence in Panama for antidrug flights.

For background, see CRS Report RL30981, *Panama-U.S. Relations* by Mark P. Sullivan and M. Angeles Villarreal.

Caribbean "Third Border Initiative"

At the 2001 Summit of the Americas in Quebec, Canada, President Bush announced the "Third Border Initiative" for the Caribbean region. According to the Administration, the initiative aims to deepen U.S. commitment to fighting the spread of HIV/AIDS, to respond to natural disasters, and to make sure the benefits of globalization are felt in even the smallest economies, particularly those in the Caribbean, which can be seen as a "third border" of the United States. U.S.initiatives include $20 million in HIV/AIDS funding, establishment of a teacher training "Center for Excellence," increased funding for Disaster Preparedness and Mitigation, assistance to improve regional civil aviation oversight, and additional funding for anti-corruption and anti-money laundering law enforcement efforts.

For more information on the "Third Border Initiative," see the U.S. Department of State, Washington File, Fact Sheet: Caribbean "Third Border Initiative" on the State Department Web site [http://usinfo.state.gov/regional/ar/summit/factb.htm].

Cuba

Cuba, a hard-line Communist state with a poor record on human rights, has been led by Fidel Castro since the 1959 Cuban Revolution. Since the early 1960s, U.S. policy toward Cuba has consisted largely of isolating the island nation through comprehensive economic sanctions. These were made stronger with the Cuban Democracy Act (CDA) in 1992 and the Cuban Liberty and Democratic Solidarity Act in 1996, often referred to as the Helms/Burton legislation. Another component of U.S. policy consists of support measures for the Cuban people, including private humanitarian donations and U.S.-sponsored radio and television broadcasting to Cuba. In May 2001, President Bush stated that his Administration would oppose any efforts to weaken sanctions against Cuba, and in July 2001, he asked the Treasury Department to enhance and expand its embargo enforcement capabilities. Yet in July 2001 and January 2002, President Bush extended for 6-month periods the waiver of Title III of the Helms-Burton law that would allow U.S. nationals to sue for damages those persons who traffic in property confiscated in Cuba.

Although there appears to be broad agreement among those concerned with Cuba on the overall objective of U.S. policy toward Cuba — to help bring democracy and respect for human rights to the island – there have been several schools of thought on how to achieve that objective. Some advocate a policy of keeping maximum pressure on the Cuban government until reforms are enacted, while continuing current U.S. efforts to support the Cuban people. Others argue for an approach, sometimes referred to as constructive engagement, that would lift some U.S. sanctions that they believe are hurting the Cuban people, and move toward engaging Cuba in dialogue. Still others call for a swift normalization of U.S.-Cuban relations by lifting the U.S. embargo.

Legislative initiatives introduced in the 107th Congress reflect these divergent views on the direction of U.S. policy toward Cuba (whether sanctions should be eased or intensified) and also cover a range of issues including human rights, migration, drug interdiction cooperation, and broadcasting to Cuba. On July 25, 2001, in action on the Treasury Department Appropriations for FY2002 (H.R. 2590), the House approved an amendment that would prohibit the Treasury Department from using funds to enforce restrictions on travel to Cuba, but it rejected another amendment that would prohibit enforcement of the overall economic embargo. Ultimately, the Cuba travel provision was not included in the conference report to the Treasury appropriations bill. In pending legislation for the second session of the 107th Congress, the Senate version of the "Farm Bill," S. 1731, includes a provision that would strike language from U.S. law that prohibits private financing of agricultural sales to Cuba.

For further information, see CRS Report RL30806, *Cuba: Issues for Congress*, by Mark P. Sullivan and Maureen Taft-Morales; CRS Report RL31139, *Cuba: U.S. Restrictions on Travel and Legislative Initiatives in the 107th Congress*, by Mark P. Sullivan; and CRS Issue Brief IB10061, *Exempting Food and Agriculture Products from U.S. Economic Sanctions: Status and Implementation*, by Remy Jurenas.

Haiti

Former President Jean-Bertrand Aristide was inaugurated on February 7, 2001 to a second, non-consecutive term. Aristide and his Fanmi Lavalas party swept presidential and legislative elections on November 26, 2000. All of the major opposition parties boycotted the elections, however, citing widespread fraud by Aristide supporters and the unresolved dispute over May 2000 legislative elections. Also on February 7, a coalition of 15 political parties, the Convergence Democratique, formed an alternative government and repeated its call for new elections. A year after Aristide took office, the dispute remains unresolved, and violence and human rights violations have increased. On March 1, 2002, the Organization of American States announced it is sending a special mission to Haiti to help resolve its long-standing political crisis. The mission will also conduct an independent investigation into the December 2001 attack on the presidential palace and the violence against opposition parties and leaders that followed.

The United States and other international donors have said they will not provide aid to the Haitian government until Aristide carries out pledges he made in December 2000 to make several political, judicial, and economic reforms, including correcting the problems of the May elections, in which Aristide supporters were awarded 10 disputed Senate seats. Foreign assistance to Haiti continues but is currently provided mostly through non-governmental organizations. At the Summit of the Americas on April 22, 2001, hemispheric heads of state singled out Haiti as a country whose problems are limiting its democratic and other development, and urged President Aristide to carry through on his pledges to reform.

In the Foreign Operations Appropriations Act for FY2002 (P.L. 107-115, signed into law Jan.10, 2002), Section 520 prohibits providing assistance to Haiti except through regular notification procedures to the Committees on Appropriations. No other conditions on aid to Haiti are in the Act. Section 554 allows the Haitian government to purchase defense articles and services for the Haitian Coast Guard. USAID currently provides humanitarian assistance to Haiti only through non-governmental organizations and will probably only provide direct assistance to the government once it makes the reforms it has promised, including resolving the disputed elections.

H.R. 1646, the Foreign Relations Authorization Act for FY2002 and 2003 (passed by the House May 16, 2001, referred to the Senate Foreign Relations Committee May 17, 2001) would authorize $6,000 to the Organization of American States for each fiscal year to be appropriated only for the investigation and dissemination of information on violations of freedom of expression by the government of Haiti. The Senate version, S. 1401 (placed on Senate Legislative Calendar September 4, 2001), contains no such provision.

In February 2002, President Bush notified Congress that Haiti was among three nations that "failed demonstrably to make substantial counternarcotics efforts over the past 12 months." The Administration exercised a waiver, however, saying that continued aid to Haiti was vital to national interests.

For further information see CRS Issue Brief IB96019, *Haiti: Issues for Congress*, by Maureen Taft-Morales.

IV. Andean Region

Andean Regional Initiative (ARI)

In April and May 2001, the Bush Administration proposed $882.29 million in FY2002 economic and counter-narcotics assistance, as well as extension of trade preferences and other measures, for Colombia and regional neighbors in an initiative called the "Andean Regional Initiative" (ARI). This included $399 million for Colombia, $206.15 million for Peru, $143.48 million for Bolivia, $76.48 million for Ecuador, $26.18 million for Brazil, $20.5 million for Panama, and $10.5 million for Venezuela.

Critics of the Andean Regional Initiative argue that it is a continuation of what they regard as the misguided approach of last year's Plan Colombia, with an overemphasis on military and counter-drug assistance, and with inadequate support for human rights and the peace process in Colombia. Supporters argue that it continues needed assistance to Colombia while providing more support for regional neighbors and social and economic programs.

In action on the FY2002 Foreign Operations Appropriations bill (H.R. 2506), the House passed the bill on July 24, 2001, with $826 million for the ARI, of which $675 million was for the counter-narcotics "Andean Counterdrug Initiative" (ACI) portion, a reduction of $56 million from the President's ACI request. The Senate passed the bill on October 24, 2001, with $698 million for the ARI, of which $547 million was for the ACI, a reduction of $184 million from the President's ACI request. The conference version of H.R. 2506, as approved by the House on

December 19 and the Senate on December 20, included $625 million for the ACI, $106 million less than the President's ACI request, with $215 million earmarked for AID programs. The measure included a variety of conditions relating to human rights and aerial fumigation as well as an alteration of the cap on military and civilian contractors serving in Colombia. In February 2002 budget submissions, the Bush Administration allocated $645 million to the ACI account for FY2002, including $20 million transferred from the general International Narcotics Control account.

In February 2002 budget submissions, the Bush Administration requested a total of $979.8 million in Andean Regional Initiative assistance for FY2003, including $731 million in counter-narcotics Andean Counterdrug Initiative assistance for the seven ARI countries, and $98 million in Foreign Military Financing for Colombia to train and equip a Colombian army brigade to protect an oil pipeline in northern Colombia.

For additional information, see CRS Report RL31016, *Andean Regional Initiative (ARI): FY2002 Assistance for Colombia and Neighbors,* by K. Larry Storrs and Nina M. Serafino; see also material available under Plan Colombia on the U.S. Department of State's International Information Programs Internet site [http://usinfo.state.gov/regional/ar/colombia/].

Andean Trade Preference Act (ATPA)

For ten years, the Andean Trade Preference Act (ATPA) provided preferential, mostly duty-free, treatment of selected U.S. imports from Bolivia, Colombia, Ecuador, and Peru. Congressional debate continues on its reauthorization, but the program expired on December 4, 2001. Enacted in 1991, ATPA was part of a broader Andean initiative to address the growing drug trade problem in Latin America. ATPA reduces the cost of certain imports in the United States, improving access to U.S. markets, which in turn is an incentive for Andean workers (particularly farmers) to pursue economic alternatives to the drug trade (e.g. growing coca). Because many Andean imports are not eligible under ATPA, or enter the United States under other preferential trade arrangements, most studies conclude that ATPA's effects on trade diversification and reducing drug production have been positive, but nonetheless, small. ATPA supporters also argue that there may be economic development and broader regional political cooperation (good will) benefits related to ATPA, although they are even less tangible.

ATPA's reauthorization provides the opportunity to evaluate its efficacy as a counternarcotics policy tool. On a broad scale, ATPA is part of a larger "alternative development" strategy, which, given the extraordinary profitability of coca production, is fighting an uphill battle. Some analysts believe that for ATPA to be considered successful, there must be some evidence of export diversification into ATPA-eligible products, which to date is not overwhelming. One option suggested is to expand the category of eligible products to include apparel, footwear, tuna, and sugar, among other products. Both the House and the Senate have moved in this direction.

On November 16, 2001, the House passed an amended extension of ATPA entitled the Andean Trade Promotion and Drug Eradication Act (H.R. 3009). It would extend the program through December 31, 2006, and provide duty-free treatment to selected apparel, tuna, and other products previously excluded. The bill would also expand the conditions countries would have to meet to remain eligible for the program benefits. On November, 16, 2001, the Senate received H.R. 3009 from the House of Representatives and referred it to the Committee on Finance. On November 29, 2001, the Committee reported an amendment in the nature of a substitute to H.R. 3009, which contained the substance of S. 525 (originally introduced by Senator Graham on March 13, 2001) with amendments to the original bill. This would amend and extend the ATPA program through February 28, 2006, and would also allow new unlimited duty-free access for selected apparel products assembled in a beneficiary country from entirely U.S.-made fabrics and yarns and would allow similar treatment (often duty free) of certain other articles with those products that enter the United States under the North American Free Trade Agreement (NAFTA) and the Caribbean Basin Trade Partnership Act. The committee also approved an amendment that would allow a more limited amount of canned tuna to be imported from the region duty free.

For further reading, see CRS Report RL30790, *The Andean Trade Preference Act: Background and Issues for Reauthorization*, by J. F. Hornbeck. Updated information can be found in the CRS trade electronic briefing book at [http://www.congress.gov/brbk/html/ebtra1.shtml].

Colombia

For the first time since the mid-1990s, President Bush seeks to expand the scope of U.S. assistance to Colombia beyond support for counternarcotics and related programs. In his FY2003 request, the President seeks $98 million in Foreign Military Financing aid to fund units of Colombian soldiers to protect an oil pipeline frequently sabotaged by leftist guerrilla groups. Another $ 439 million was requested under the State Department's International Narcotics Control account for continued support of the "Plan Colombia" programs approved by Congress in 2000 and for the formation of a new Colombian Army Counternarcotics Brigade of about 2,700 troops. This expanded request comes at a crucial time for Colombia, as it prepares for May presidential elections amid an intensification of the guerrilla war after the February 2002 breakdown of peace talks.

U.S. ties to Colombia broadened extensively in 2000 with Congress' approval of the Clinton Administration's "Plan Colombia" legislation (P.L. 106-246), which also stirred a new set of congressional concerns about the future of U.S. policy there. In July of that year, Congress approved $1.2 billion in regular and supplemental FY2000 and FY2001 appropriations for "Plan Colombia" and previously funded programs in Colombia. (some of which carried into FY2002). Nearly half of the $860.3 million "Plan Colombia" supplemental funds from P.L. 106-246 was requested for a "Push into Southern Colombia" program to set up and train two new Colombian Army Counternarcotics Battalions (CACBs), which combined with an existing one set up earlier by the United States. The new battalions were to assist the Colombian National Police in the fumigation of illicit narcotics crops and the dismantling of laboratories, beginning with coca fumigation in the southern provinces of Putumayo and Caquetá, where coca cultivation was spreading rapidly. The rationale for the program was to debilitate the guerrillas by depriving them of the substantial income they derive from taxing narcotics cultivation, processing, and marketing. In addition, Congress also provided substantial assistance for economic development, displaced persons, human rights monitors, and administration of justice and other governance programs.

The Bush Administration's desire to broaden further the scope of U.S. assistance to infrastructure protection has renewed debate over the appropriate level and type of U.S. assistance, particularly military assistance, to Colombia. President Bush and those who support expanded aid hold that such assistance is necessary to reinforce Colombia's democracy. Because of human rights and other concerns, some Members already have objected to Plan Colombia's military assistance, particularly support for the CACBs. The proposed assistance for oil pipeline security revives some Members' concerns that the United States is being slowly drawn into a Vietnam-like morass, providing assistance to a government that does not have the credibility and political will to successfully wage its own war and conclude with a just peace.

Throughout 2001, there were major concerns about some Colombian military officials' continuing links with the paramilitary groups. Despite the Pastrana government's efforts to curb the rightist "paramilitaries" or "self-defense" groups and the Colombian military leaders who have directly or indirectly supported them, the paramilitaries have conducted many massacres during 2001. New human rights concerns were raised when the Colombian Congress approved in June 2001, and President Pastrana signed on August 13, 2001, a national security law that expanded the military's powers to hold suspects and enabled it to subordinate local civilian officials to military control in military "theaters of operations."

In an effort to push the Colombian military further, to not only cease support but to take action against the paramilitary organizations, on September 10, 2001, the State Department designated the largest of them, the United Self-Defense Forces (AUC), a foreign terrorist organization (FTO). (Such a designation, which already had been applied to the two leftist guerrilla groups, makes any member or supporter of such groups ineligible for a U.S. visa.) Congress, in the FY2002 foreign appropriations legislation, H.R. 2506, P.L. 107-115 (signed into law January 10, 2002) set forth in Section 567 specific human rights conditions that the Colombian armed forces would have to meet before they could receive funds from this or any prior foreign operations appropriations act. On February 5, 2002, three human rights groups (Amnesty International, Human Rights Watch, and the Washington Office on Latin America) issued a document stating that these conditions had not been met. (The document can be accessed at the Human Rights Watch web site, [http://www.hrw.org/press/2002/02/colombia0205.htm].)

P.L. 107-115 also provides for the return to the United States of any helicopter procured with counternarcotics funds if it is used to "to aid or abet the operations of any illegal self-defense group or illegal security cooperative..." The law does, however, waive a restriction on the use of State Department counternarcotics funds that prohibits their use for weapons and ammunition used for offensive purposes. Concerns about deepening U.S. involvement were expressed in continuing support for caps on the participation of civilian contractors and particularly of U.S. military personnel in Colombia. These caps were altered, however, with the 300 cap on civilian contractors raised to 400, and the 500 person cap on military personnel reduced to 400.

The U.S.-backed spray eradication of coca crops has also caused considerable controversy. Many groups have lobbied for a cessation of all spraying until alleged ill health effects are investigated and all those whose subsistence crops could be affected by the spraying are given the opportunity to join voluntary eradication and well-supported alternative development efforts. Spraying was suspended for some months in 2001 in "Plan Colombia" target provinces of Putumayo and Caquetá. As a result, P.L. 107-115 requires the Secretary of State to report, before funds can be used to purchase chemicals for fumigation spraying, that these chemicals are safe and are being used in accordance with instructions and that mechanisms are in place to evaluate claims of damage. It also puts a halt to U.S. funding of spray eradication six months after enactment unless alternative development programs have been developed "in consultation with communities and local authorities" in the departments where spraying is planned and unless such programs are being implemented in the departments where spraying has taken place. In a February 26, 2002 report, the General Accounting Office noted that U.S. AID's alternative development programs in those provinces were proceeding very slowly and faced serious obstacles, most importantly the Colombian government's lack of control there. Consequently, the GAO recommended that Congress provide no additional funding until measurable progress is achieved. (GAO/02/291)

In its FY2002 budget request, the Bush Administration asked for $399 million in foreign operations funds for Colombia to continue to carry out the "Plan Colombia" programs. As of early 2002, the Bush Administration estimates that it will provide $380.5 million from P.L. 107-115. Another $106.4 million has been tentatively allocated for counternarcotics programs in Colombia from the Department of Defense Appropriations bill's (H.R. 3338, P.L. 107-117) lump sum counternarcotics account. (Colombia and other Andean countries also receive other assistance from a State Department regional account that provides for counternarcotics activities of the department's air wing.)

For more information, see CRS Report RL31016, *Andean Regional Initiative (ARI): FY2002 Assistance for Colombia and Neighbors*, cited above, which tracks action on FY2002 assistance to Colombia; CRS Report RL30541, *Colombia: Plan Colombia Legislation and Assistance (FY2000-FY2001)* for information on legislation approved in 2000, and CRS Report RL30330, *Colombia: Conditions and U.S. Policy Options*, by Nina M. Serafino.

Peru

Alejandro Toledo was inaugurated as President of Peru on July 28, 2001, following two-round presidential elections in April and June 2001 that were widely regarded as free and fair. Toledo's primary tasks are seen as stimulating economic growth, maintaining stability, and restoring the independence of democratic institutions – and public confidence in them – by continuing to root out the widespread political corruption that is part of the legacy left behind by former President Alberto Fujimori. Fujimori fled to Japan and resigned in November 2000, following allegations of electoral fraud and a series of corruption and human rights scandals involving his top aide. An interim government was formed according to constitutional rules of succession and was praised for maintaining calm, attacking corruption, and organizing presidential and legislative elections in its eight months in office. An anti-Fujimori opposition leader, Toledo was elected with 53% of the valid vote, against left-leaning former Peruvian President Alan Garcia with 47% of the vote.

In legislation and committee reports, the 106th Congress expressed concern about the Clinton Administration's provision of counter narcotics assistance to Peru's intelligence service, which was widely reported to be responsible for a wide array of human rights violations. Since the fall of the Fujimori government, many observers have also expressed concern regarding the former head of that intelligence service, Vladimiro Montesinos, and his relationship to U.S. agencies, especially the Central Intelligence Agency, and to counter narcotics operations. Montesinos also fled, was captured in Venezuela and returned to Peru, where he faces some 168 criminal investigations into crimes including money laundering, illicit enrichment and corruption, organizing death squads, protecting drug lords, and illegal arms trafficking. In their oversight of counter narcotics programs in Peru, Members of the 107th Congress continue to monitor these investigations, especially as they relate to relations between Montesinos and U.S. agencies. The United States has provided the Peruvian congressional committee investigating Montesino's activities with declassified State Department documents, which show U.S. officials as wary of dealing with Montesinos in light of unconfirmed allegations of his involvement in corruption and human rights violations.

Congressional support for a U.S.-Peruvian aerial drug interdiction program waned following an accident on April 20, 2001, in which an American missionary plane was accidentally shot down in Peru, killing a missionary woman and her infant daughter. The program, which involves intelligence sharing between Central Intelligence Agency-contracted private military personnel and Peruvian authorities, has been suspended and is under review. The U.S. and Peruvian governments conducted a joint investigation into the accident. Their report, released August 2, 2001, concluded that lax procedures, including the inability of Peruvian and U.S. personnel to communicate in the same language, contributed to the erroneous shoot down. Peru's Foreign Minister, Diego Garcia-Sayan, reportedly asked that the program be resumed, arguing that is the only practical way to combat narcotics traffickers in Peru. Others argue that the flight interdiction program's impact is minimal because traffickers use a variety of other means to export coca from Peru.

The Andean Counterdrug Initiative, incorporated into the Foreign Operations appropriations bill for FY2002 (P.L. 107-115, signed into law Jan.10, 2002), prohibits funding of a Peruvian air interdiction program until the Secretary of State and Director of Central Intelligence certify to Congress, 30 days before resuming such a program, that enhanced safeguards and procedures are in place to prevent the occurrence of any incident similar to the one of April 2001. It also sets forth health and safety guidelines for aerial coca fumigation and specifies that not less than $215 million shall be applied to USAID economic and social programs in the Andean region. U.S. Ambassador to Peru John Hamilton said U.S. counternarcotics assistance to Peru would triple in 2002 to over $150 million.

Members of Congress have also expressed concern regarding the case of Lori Berenson, an American jailed in Peru on charges of treason. Berenson was convicted in 1996 by a secret Peruvian military tribunal of helping plan a thwarted attack against the legislature by the Tupac Amaru Revolutionary Movement (MRTA), a guerrilla group, and given a life sentence. In 2000, a higher military tribunal overturned the ruling and sent the case to a civilian anti-terrorism court, which in June 2001 convicted and sentenced Berenson to 20 years on charges of collaboration with terrorists. Berenson's appeal of that judgment was denied by Peru's Supreme Court in February 2002. A letter to the Peruvian government in July 2001 signed by 143 Members of Congress asked for the immediate release of Berenson, who maintains her innocence. Reportedly, both President Bush and Secretary of State Colin Powell have asked Toledo for her release on humanitarian grounds (*Miami Herald*, February 19, 2002). Others, including former U.S. Ambassador to Peru Dennis Jett, say it would be "a major mistake" to make Berenson's pardon a high priority in U.S.-Peru relations and would risk making President Toledo appear to be soft on terrorism or as interfering with the courts. Jett, who was serving in Peru when the MRTA took hundreds of people hostage at the Japanese ambassador's residence in 1996, says it would be asking President Toledo "to commit political suicide" by pardoning Berenson.

President Bush will become the first U.S. President to visit Peru when he travels to Lima on March 23, 2002. According to the White House, President Bush will meet with President Toledo "to discuss our mutual efforts to strengthen hemispheric democracy, free trade, and the rule of law" and "our common fight against narcotics trafficking and terrorism." Bush may also announce a date for resumption of drug surveillance flights.

For further information, see CRS Report RL30918, *Peru: Recovery from Crisis*, and CRS Report RS20536, *Peruvian Elections in 2000: Congressional Concerns and Policy Approaches*, by Maureen Taft-Morales.

Venezuela

Since the election of former coup leader Hugo Chavez as President in 1998, Venezuela has undergone enormous political changes, with a new constitution and revamped political institutions. Critics and other observers have raised concerns about his government and fear that the President is moving toward authoritarian rule with his domination of most government institutions. Chavez's popularity has eroded over the past year amid the perception that his government has been ineffective in improving living conditions in Venezuela, which have eroded over the past decade. Opposition to Chavez's rule has grown into a broad coalition of political parties, unions, and business leaders, while Chavez maintains strong support among the poor.

The United States has traditionally had close relations with Venezuela, although relations have been strained at times under the Chavez government. In November 2001, the U.S. Ambassador to Venezuela was recalled for consultations as a sign of displeasure with Chavez's statement regarding the war in Afghanistan that the United States was "responding to terror with terror."[4] The State Department also expressed concern in early January 2002 about attempts by Chavez supporters to intimidate the opposition and the press. Key U.S. interests in Venezuela include continued U.S.

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[4] Andy Wibb-Vidal, "Intimidation of Chavez's Critics Alarms Washington," *Financial Times*, January 9, 2002, p. 6.

access to Venezuelan oil reserves, the largest outside of the Middle East; promotion and protection of U.S. trade and investment; the preservation of constitutional democracy; and continued close anti-narcotics cooperation. The Bush Administration allocated $5.5 million in FY2002 assistance for Venezuela as part of the anti-drug strategy of the Andean Regional Initiative and is requesting $8.5 million in FY2003 assistance.

For additional information, see CRS Report RS20978, *Venezuela under Chavez: Political Conditions and U.S. Relations*, by Mark P. Sullivan.

V. Brazil and the Southern Cone

Brazil

Brazilian President Fernando Henrique Cardoso is in the last year of his second term, with presidential and congressional elections approaching in October 2002 amid doubts about the survivability of his free market-oriented governmental coalition. Cardoso was first elected in 1994 and was resoundingly reelected to a second term in 1998, largely on the basis of the success of his anti-inflation Real Plan and voters' confidence that he could best deal with mounting national and international economic difficulties. In his second term he has adopted austere budgets, moved to a floating exchange rate, obtained $41.5 billion from the International Monetary Fund (IMF), and imposed temporary energy rationing when a severe drought hampered hydroelectric energy production. Minister of Health Jose Serra emerged in mid-January 2002 as Cardoso's preferred candidate for the 2002 election, but it is not clear that he can generate enough support to prevent major coalition partners from running separate candidates in the first round in hopes of gaining greater political advantage. Perennial leftist presidential candidate Luis Inacio Lula da Silva of the Workers Party, while moderating past positions, is leading in public opinion polls at this early point in the race.

During the last 3 years, Brazil has had moderate economic success, generally maintaining tight fiscal and monetary policies, avoiding the projected economic contraction in 1999, growing at an encouraging 4.5% rate in 2000, and achieving a 1.6% rate of growth in 2001, despite an energy crisis and the threat of contagion from Argentina's economic uncertainties. In September 2001, Brazil negotiated a new $15.58 billion stand-by credit with the IMF for support through December 2002, with tough fiscal and monetary targets. Specialists are forecasting growth of 2.5% in 2002, assuming renewed growth in the United States, no worsening of conditions in Argentina, and no lack of resolve surrounding the elections.[5]

In the foreign policy area, Brazil's relations with the neighboring countries of Argentina, Uruguay, and Paraguay, which together with Brazil form the Southern Common Market (Mercosur), strengthened significantly in the 1990s, although

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[5] "Brazil: Economic Forecast," *Economist Intelligence Unit*, February 15, 2002.

Brazil's devaluation of the *real* and Argentina's economic difficulties are posing new challenges to the subregional bloc. Brazil and members of Mercosur have emerged as the major advocates of a slower approach to achieving an agreement on a Free Trade Area of Americas (FTAA), insisting that free trade must include agricultural products and must establish limits to unilateral actions of various sorts. Even so, relations with the United States have also warmed considerably as demonstrated by President Cardoso's visits with President Bush in Washington, D.C. and Quebec, Canada The two countries are cooperating in many areas, despite continuing trade disputes over many products, including President Bush's decision to impose some tariffs on foreign steel products on March 5, 2002.

For additional information, see CRS Report RL30121, *Brazil under Cardoso: Politics, Economics, and Relations with the United States*, by K. Larry Storrs; and CRS Report 98-987, *Brazil's Economic Reform and the Global Financial Crisis*, by J.F. Hornbeck.

Argentina

In December 2001, Argentina's financial collapse and escalating social unrest forced President Fernando de la Rua to resign. On January 1, 2002, the Argentine Congress selected Eduardo Duhalde to complete the December 2003 presidential term and face the country's economic rebuilding. As Peronist Party leader, and a former Vice President (under Menem) and Governor of Buenos Aires Province, Duhalde has been a vocal critic of Argentina's market-based reforms, which he blames for many of the current problems. The seeds of Argentina's financial and political crisis were planted in 1991 with adoption of its currency board to fight hyperinflation. The Convertibility Law legally guaranteed the convertibility of peso currency to dollars at a one-to-one fixed rate and monetary policy was forcibly constrained to uphold that promise. This required continuing strong economic growth and disciplined macroeconomic policies, particularly if it were to weather the inevitable external shock. Over time, however, and despite repeated assistance from the International Monetary Fund (IMF), confidence waned in Argentina's ability simultaneously to reverse its four-year recession, correct its fiscal deficit, and maintain the convertibility plan. Last ditch financial policies, including forced debt restructuring and limiting bank withdrawals, strained credibility abroad and incited rioting and political upheaval at home.

President Duhalde's economic program initially centered on abandoning the currency board and the peso's 1-to-1 peg with the dollar in favor of a dual exchange rate system with a highly devalued peso. Bank loans were converted to pesos at the 1-to-1 rate, but dollar savings and checking accounts were guaranteed, although frozen as converted certificates of deposits for at least one year. Restrictions were also placed on bank withdrawals. The mismatch in the conversion treatment of bank deposits and liabilities, and a Supreme Court ruling calling the bank withdrawal restrictions unconstitutional, forced Duhalde to abandon the dual exchange rate, let the peso float, convert all accounts to pesos, but convert deposits to pesos at the previous official rate of 1.4 pesos to the dollar. Government bonds are to be issued to cover banking losses created under this plan. Although these changes were in keeping with IMF and U.S. policy preferences for Argentina, they represent only a beginning of the process of political and economic reconstruction the country faces.

Duhalde must also restructure Argentina's massive foreign debt and is attempting to negotiate a $15-20 billion IMF assistance package that, barring an acceptable economic plan, faces resistence from the United States and the IMF. Tax reform, fiscal tightening, and establishing a monetary anchor to manage inflation are also cornerstones to Argentina's financial credibility.

The new program faces many challenges and is highly unpopular given the financial hardships it places on the Argentine people. Foreigners are unsure whether to continue operating in Argentina. Recapitalizing the banking system is critical to restarting the economy. This will require IMF and other international assistance, which has been impeded by questions over Argentina's policy direction and its populist rhetoric. Implications for moving ahead expeditiously on the Free Trade Area of the Americas (FTAA) and for tightening U.S.-Argentine relations are now less certain. Under these circumstances, the world is watching to see if Argentina's economic and political situation deteriorates further. The crisis has also raised questions about the role of the IMF and whether it might have encouraged a different course for Argentina at an earlier date, when the costs of transitioning from its convertibility plan would have been much lower.

For more information, see CRS Report RS21072, *The Financial Crisis in Argentina*, by J. F. Hornbeck, CRS Report RS21130, *The Argentine Financial Crisis: A Chronology of Events*, and CRS Report RS21113, *Argentina's Political Upheaval*, by Mark P. Sullivan.

Chile

Chile and the United States enjoy good political and economic relations. Since 1994, U.S.-Chilean relations have centered on negotiating a free trade agreement, with the expectation initially that Chile would accede to the NAFTA. Although this did not come about, the United States and Chile did commence formal negotiations on a bilateral free trade agreement (FTA) on December 6-7, 2000, in Washington, D.C. Because Chile is a relatively minor trading partner and one of the most open, reformed, and developed economies in Latin America, expectations are running high that there is a good chance of congressional approval of the FTA even without trade promotion (fast track) authority (TPA) in place, which requires Congress to consider trade agreement implementing legislation within a limited time frame, under limited debate, and with a single up or down vote. Despite Chile's widely regarded economic track record and willingness to address a wide spectrum of issues, differences in how to address controversial provisions, such as those on labor, environment, and antidumping measures, are the main hurdles to clear. Although TPA may not be needed to pass a U.S.-Chile FTA, negotiators currently appear to be expecting action on such legislation to provide guidance on these more controversial matters.

Another issue in bilateral relations has been the sale of advanced combat fighter aircraft to Chile. In November 2001, a preliminary agreement was reached between the Chilean military and Lockheed Martin for the purchase of 10 F-16 fighter jets. President Lagos made his final decision in late January 2002 to go ahead with the sale, reportedly valued at $660 million.

For background information see CRS Report RL30035, *Chile: Political/ Economic Conditions and U.S. Relations*, by Mark P. Sullivan. For information on U.S.-Chile trade relations, see CRS Report RL31144, *A U.S.-Chile Free Trade Agreement: Economic and Trade Policy Issues*, by J.F. Hornbeck; and CRS Issue Brief IB10077, *Agricultural Trade Issues in the 107th Congress*, by Charles E. Hanrahan, Geoffrey S. Becker, and Remy Jurenas.